

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-05 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /113 W
-----111640 151814Z /43

R 151558Z SEP 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1445
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY VIENNA

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USEEC ALSO FOR EMBASSY; USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, ECON, GW
SUBJECT: ECONOMIC STIMULATION PROGRAM: TAX RELIEF BILL
AND MORE EXPANSION-ORIENTED FEDERAL DRAFT
BUDGET FOR 1978

REF.: (A) BONN 14722; (B) BONN 15045

1. ON SEPTEMBER 14, THE CABINET FORMALLY APPROVED THE
FEDERAL GOVERNMENT'S PORTION OF THE LONG-DEBATED STIMU-
LATION PROGRAM, PROVIDING FOR (A) TAX RELIEF IN THE
AMOUNT OF DM 7.2 BILLION ANNUALLY; AND (B) A FEDERAL
DRAFT BUDGET FOR 1978 WHICH, AT DM 188.6 BILLION, IS
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APPRECIABLY MORE EXPANSION-ORIENTED THAN PREVIOUSLY
CONTEMPLATED.

2. THE TAX RELIEF SCHEME, INTRODUCED TO LEGISLATURE IN
THE FORM OF A DRAFT OF THE COALITION PARTIES FOR REASONS
OF EXPEDIENCY, PROVIDES FOR THE FOLLOWING:
(A) AN INCREASE IN THE BASIC EXEMPTION TO THE

PERSONAL INCOME TAX AND AN UPPING
OF THE CHRISTMAS EXEMPTION AS DESCRIBED IN
PARA 1 (A) AND (B) OF REFERENCE A, INVOLVING
ESTIMATED REVENUE LOSSES OF, RESPECTIVELY,
DM 3.6 BILLION AND DM 2.1 BILLION ANNUALLY;
AND

(B) MORE GENEROUS DEPRECIATION ALLOWANCES
(REVISED ANNUAL REVENUE LOSS ESTIMATE:
DM 1.5 BILLION). PROPOSED ARE IMPROVED
DECLINING BALANCE DEPRECIATION FACILITIES
FOR MACHINERY AND EQUIPMENT AS DESCRIBED IN
PARA 1 (C) OF REF. A (REVENUE LOSS NOW
ESTIMATED AT DM 1.3 BILLION ANNUALLY). THIS
WOULD RESTORE THE STATUS PREVAILING THROUGH
MARCH 1960. ALSO PROPOSED ARE THE FOLLOWING
DEPRECIATION RATES FOR BUILDINGS: 3.5 PER-
CENT DURING THE YEAR OF COMPLETION AND EACH
OF THE FOLLOWING 11 YEARS, 2 PERCENT PER
ANNUM DURING THE SUBSEQUENT 20 YEARS, AND 1
PERCENT EACH DURING THE REMAINING 18 YEARS.
THIS WOULD APPLY TO NON-SUBSIDIZED DWELLINGS
FOR RENTAL PURPOSES AS WELL AS TO COMMERCIAL
BUILDINGS, THUS RESTORING THE STATUS THAT
PREVAILED UNTIL 1973. SINCE THAT TIME, AND
TO DATE, SUCH BUILDINGS CAN BE DEPRECIATED

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ONLY AT THE RATE OF 2 PERCENT PER ANNUM
(SUCH PRIVILEGED PROJECTS AS PUBLICLY-PROMO-
TED SOCIAL HOUSING COULD BE DEPRECIATED AT
THE HIGHER RATES ALL ALONG). THE CONTEM-
PLATED REINSTITUTION ON A GENERAL BASIS OF
ACCELERATED DEPRECIATION ALLOWANCES FOR
BUILDINGS IS ESTIMATED TO RESULT IN REVENUE
LOSSES OF DM 230 MILLION ANNUALLY.

3. FIRST READING OF THE TAX RELIEF DRAFT LEGISLATION IN
THE BUNDESTAG TOOK PLACE ON SEPTEMBER 15; SUBSEQUENTLY,
THE BILL WAS REFERRED TO COMMITTEE. THE GOVERNMENT HOPES
THAT THE BUNDESRAT WILL FINISH ITS CONSIDERATION OF THE
TAX BILL ON OCTOBER 14. (FOR COMMENTS SEE REF. B).

4. UNDER THE PROPOSED BUDGET, FEDERAL EXPENDITURES WOULD
RISE FROM THE APPROVED 1977 VOLUME OF DM 171.3 BILLION
TO DM 188.6 BILLION IN 1978. THESE FIGURES INCLUDE
FEDERAL OUTLAYS UNDER THE DM 16 BILLION MEDIUM-TERM
INVESTMENT PROGRAM AS WELL AS THE FEDERAL SHARE IN THE
CONTEMPLATED LONGER-TERM ENERGY CONSERVATION PROGRAM
(PARA 4 OF REF. A) AND CONTINUATION AT PRESENT LEVELS

(RATHER THAN PREVIOUSLY-CONTEMPLATED CURTAIL-
MENT) OF PROMOTION OF SOCIAL HOUSING CONSTRUCTION.

5. THE 10.1 PERCENT RISE NOW PROPOSED COMPARES WITH A

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 1446
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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GOVERNMENT PROJECTION OF 8 PERCENT NOMINAL GNP GROWTH
IN 1978. IT NOT ONLY EXCEEDS SUBSTANTIALLY THE 7.5
PERCENT INCREASE WHICH HAD BEEN SCHEDULED FOR 1978 IN
THE MEDIUM-TERM FISCAL PLAN (MTFP) PUBLISHED LATE LAST
YEAR, BUT ALSO SURPASSES THE 8-9 PERCENT TENTATIVELY
ENVISAGED UNTIL A FEW WEEKS AGO.

6. TAKING INTO ACCOUNT THE FEDERAL SHARE IN THE
CONTEMPLATED TAX RELIEF, 1978 FEDERAL EXPENDITURES OF
THIS MAGNITUDE, ACCORDING TO THE GOVERNMENT'S DRAFT
BUDGET, WOULD REQUIRE NET BORROWING OF 27.5 BILLION
DM 27.5 BILLION, VERSUS DM 20.7 BILLION IN THE 1977

FEDERAL BUDGET AUTHORIZATION.

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7. THE SUBMITTAL OF THE DRAFT BUDGET TO THE LEGIS-
LATURE IS TENTATIVELY SCHEDULED FOR EARLY OCTOBER.

8. AS CAN BE SEEN IN THE FOLLOWING TABLE, THE GREATEST
INCREASE IN ABSOLUTE AMOUNTS IS CONTEMPLATED FOR OUT-
LAYS BY THE LABOR MINISTRY, REFLECTING THE NEED FOR
SUPPORT OF THE SOCIAL AND UNEMPLOYMENT INSURANCE SCHEMES.
IN TERMS OF PERCENTAGE INCREASES, THE DEVELOPMENT AID
MINISTRY (MINISTRY FOR ECONOMIC COOPERATION) FARES
BEST, WITH OUTLAYS BUDGETED TO RISE BY WELL OVER ONE
FIFTH, WHEREAS EXPENDITURES BY THE DEFENSE MINISTRY
ARE SCHEDULED TO INCREASE ONLY BY A BELOW-AVERAGE 4.3
PERCENT.

BREAKDOWN OF FEDERAL EXPENDITURES 1977/1978

	MILLION DM		CHANGE 78/77	
	1977	1978	DM	PERCENT
PRESIDENT'S OFFICE	12.2	12.8	0.6	4.9
BUNDESTAG	278.1	286.3	8.2	2.9
BUNDESRAT	8.8	8.7	-0.1	-1.1
CHANCELLOR'S OFFICE	323.3	337.5	14.2	4.4
FOREIGN OFFICE	1,434.5	1,549.3	114.8	8.0
INTERIOR	2,521.2	2,953.4	432.2	17.1
JUSTICE	287.6	291.8	4.2	1.5
FINANCE	2,500.0	2,693.1	193.1	7.7
ECONOMICS	3,055.0	3,567.0	512.0	16.8

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FOOD AND AGRIC.	5,696.6	6,177.7	481.1	8.4
LABOR	38,428.2	43,251.7	4,823.5	12.6

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TO SECSTATE WASHDC 1447

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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TRANSPORT 21,591.8 24,636.0 3,044.2 14.1
POST 5.2 5.2 -- --
DEFENSE 32,866.7 34,275.0 1,408.3 4.3
FAMILY AND
HEALTH 14,638.7 16,096.0 1,457.3 10.0
CONSTITUTIONAL
COURT 9.1 10.3 1.2 13.2
GENERAL ACCOUNTING
OFFICE 30.6 30.5 -0.1 -0.3
AID 3,217.9 3,917.9 700.0 21.8
CITY PLANNING 3,852.9 4,226.7 373.8 9.7
ALL GERMAN
AFFAIRS 403.8 442.8 39.0 9.7
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RESEARCH AND

TECHNOLOGY 4,208.6 4,835.3 626.7 14.9

EDUCATION AND

SCIENCE	3,821.6	4,261.0	439.4	11.5
FEDERAL DEBT	9,731.4	11,605.3	1,873.9	19.3
MANAGEMENT				
PENSIONS	7,917.8	7,659.6	-258.2	-3.3
COSTS RELATED TO				
STATIONING OF				
FOREIGN FORCES	973.2	1,064.2	91.0	9.4
CIVIL DEFENSE	552.0	619.3	67.3	12.2
GENERAL ADMINI-				
STRATION	12,938.9	13,820.8	881.9	6.8
TOTAL	171,305.7	188,635.0	17,329.3	10.1

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Message Attributes

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